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C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000146

SIPDIS

STATE FOR EAP/BCLTV, EB  
COMMERCE FOR ITA JEAN KELLY  
TREASURY FOR OASIA  
USPACOM FOR FPA

E.O. 12958: DECL: 02/03/2015

TAGS: ENRG PREL ECON BM

SUBJECT: NEW GAS IN BURMA: PIPE DREAMS?

REF: A. 04 RANGOON 1057 AND PREVIOUS  
B. 04 RANGOON 876 AND PREVIOUS

Classified By: COM CARMEN MARTINEZ FOR REASONS 1.4 (B,D)

11. (C) Summary: The Burmese government is salivating over prospects that a tri-nation (Burma-Bangladesh-India) pipeline will be constructed to carry Burmese natural gas to India. Though the developers of the new gas fields and the three governments are full of good news at the moment, outside observers are skeptical and await further test wells and honest technical assessments of the pipeline's feasibility. If all goes well, 2005 could see the first steps toward a new multi-year stream of foreign exchange revenue. However, if things falter, the GOB will be high and dry, with few prospects for major new hard currency revenue. End summary.

Bay of Bengal Gas and Pipeline: Much Ado About What, Exactly?

12. (SBU) On January 12-13, the energy ministers of Burma, Bangladesh, and India met in Rangoon and agreed to cooperate to pipe Burmese natural gas from the Bay of Bengal, through Bangladesh, into India. According to the text of the agreement, the design and route of the pipeline would be determined later and the three governments would establish a "Techno-Commercial Working Group" to meet to prepare a draft Memorandum of Understanding (MoU). The GOB has called for this meeting to occur on February 14 in Rangoon. This ministerial agreement seems to put to rest some confusion over which way, theoretically, the Burmese would export the natural gas that it expects to be found in commercial quantity west of Rakhine State, near the border with Bangladesh. There had been some talk in recent months that Daewoo (or perhaps the Indian government) would build a Liquefied Natural Gas (LNG) facility onshore in Sittwe, the coastal capital of Rakhine State. This plan now seems shelved.

13. (C) Daewoo is the operator of an exploration and development consortium that is currently drilling test wells and taking seismic data in two offshore blocks (A-1 and A-3), west of Sittwe. Daewoo's initial exploration agreement and Production Sharing Contract (PSC) with the parastatal Myanmar Oil and Gas Enterprise (MOGE), came in June 2000, under which the GOB granted Daewoo 5.5 years for exploration in block A-1. In late 2001 and 2002, Korea's KOGAS and India's GAIL and OVL bought shares of 10 percent, 10 percent, and 20 percent respectively. Based on two test wells drilled in 2004 and this year in the Shwe field of block A-1, the consortium is publicly claiming estimated gas reserves of 4-6 trillion cubic feet. Daewoo estimates that two other fields in A-1, Shwe Phyu and Ngwe, might have 7-12 trillion cubic feet combined. For comparison, the existing Yadana and Yetagun offshore fields in the Andaman Sea, currently in production by two international consortia, have about 10 trillion cubic feet in proven reserves combined.

Skepticism Remains

14. (C) Though this looks good on paper, a western oil company official told us he was withholding judgment on the commercial viability of the gas reserves until the consortium completes several additional test wells between now and mid-2005. He said that Daewoo had found some gas in its second test well, but not as much as in the first well drilled last year. In addition, the complications of delivery of the Bay of Bengal gas are far greater than for the natural gas now being piped from the Yadana and Yetagun fields in the Andaman Sea to Thailand. For example, the pipeline length would be greater and would either pass through hundreds of miles of very rugged and undeveloped onshore terrain, from Sittwe to India, and perhaps also along the seabed under very deep water. Because of this, the costs would be extremely high -- and require a particularly large find to make the whole project economically viable. To summarize, the oil company official said right now, "the pipeline is a pipe dream."

15. (C) Nonetheless, he added, GOB energy officials had been telling him that there was an urgency to complete the tripartite agreement by the end of March. He did not know

why the rush, but said his GOB contacts had speculated the Indian government was keen to finalize the agreement as a counterweight to expanding Chinese government economic assistance programs (ref B). It's also possible that the GOB Energy Ministry could be under pressure to move the pipeline process along to ensure no time is wasted when (or if) Daewoo is prepared to bring its production online. In any event, the western executive opined that once the MoU was signed, movement on the pipeline would likely grind to a halt until Daewoo had completed its exploration.

Comment: Boom or Bust?

16. (C) For Burma's energy sector, investment statistics, and foreign exchange coffers, what happens in the Bay of Bengal over the next year will be very significant. The Daewoo "find" (five years in the making) is currently the biggest and best hope for a significant new income stream from Burma's energy sector. However, though foreign investors have recently signed a few additional exploration agreements (septel), any production would be far in the future and there is little expectation at the moment that any of these new explorations will lead to much. As have Total's and Petronas' gas exports to Thailand, Daewoo's gas exports to India would be very lucrative for the GOB. The PSC Daewoo signed in 2000, provides a 60/40 or 65/35 profit split in MOGE's favor (depending on volume and depth of the wells) as well as a multi-million dollar "Production Bonus" depending on volume. Such revenue would be lessened by the cost of the pipeline. However, it is unclear how much the Burmese would be expected to contribute to the construction and how this contribution would be paid. On the other hand, if Daewoo's additional drilling turns up a smaller than expected reservoir, or if the tripartite pipeline project dissolves over expenses or politics, Burma will get nothing, with few new sources of foreign exchange on the horizon. End comment.

17. (U) This cable has been reviewed by Embassy Dhaka and passed to Embassy New Delhi.

Martinez